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Commentary 3	Criterion A: Diagrams	Criterion B: Terminology	Criterion C: Application	Criterion D: Analysis	Criterion E: Evaluation	Total marks	Nature of the article
Marks awarded for each criterion available	3 ₁₃	2 ₁₂	2 ₁₂	3 ₁₃	4 ₁₄	14/14	OK.
Comments	Excellent use of diagrams + terminology.		Analysis, with the use of diagrams is excellent. Judgments are balanced + well reasoned.		Overall comments An excellent commentary on a difficult article!		

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Brazil raises tariff-free wheat import quota again, to 3.3 mln T

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Brazil raises tariff-free wheat import quota again, to 3.3 mln T

Wed, Oct 30 2013

SAO PAULO, Oct 30 (Reuters) - Brazil's Trade Ministry said on Wednesday it raised the quota for tariff-free wheat imports again, this time by 600,000 tonnes to 3.3 million tonnes, as the Southern Cone struggles to produce the grain this season.

The ministry started the quota in April, freeing some wheat from a 10 percent import tariff, after output losses in southern Brazil and in Argentina, typically Brazil's main supplier of the grain.

The tariff-free quota applies to wheat that lands in Brazil by Nov. 30.

Brazil, often one of the world's biggest importers of the grain, has purchased nearly all of its tariff-free wheat from the United States and Canada, which produce hard wheats that local mills prefer.

Wheat trade among countries in the Mercosur customs union - Brazil, Argentina, Uruguay and Paraguay - is tariff-free. But due to the trade agreement, all wheat from outside the bloc requires a 10 percent tariff, except in extreme circumstances.

The Argentine government earlier this year restricted wheat exports after local prices for the grain hit record levels, raising concerns over food inflation. (Reporting by Reese Ewing; Editing by John Wallace)

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According to the article, Brazil previously imposed a 10% tariff, which is a tax imposed on imported goods, on all wheat imports in excess of the 2.7 million tonnes tariff-free quota, which is a physical limit on the quantity of imported wheat exempt from the tariff. The month-long increase in the quota to 3.3 million tonnes will have a number of effects on various stakeholders including domestic consumers, Mercosur producers, foreign producers and the Brazilian government.

Brazil is a member of Mercosur customs union, meaning that it has free trade with other members and adopts common external tariffs against non-members. Due to “extreme circumstances” – namely that Brazil has experienced a fall in domestic supply as well as tariff-free supply from its fellow Mercosur member Argentina – non-members may export more tariff-free wheat to Brazil so that excess increases in wheat prices in Brazil may be avoided. The reduction in Mercosur supply is shown in Diagram 1, where Mercosur producers now supply q_2 at price $p_w + \text{quota}_2$ as opposed to q_1 at $p_w + \text{quota}_1$, though actual quantities may differ due to additional supply from world supply + tariff.

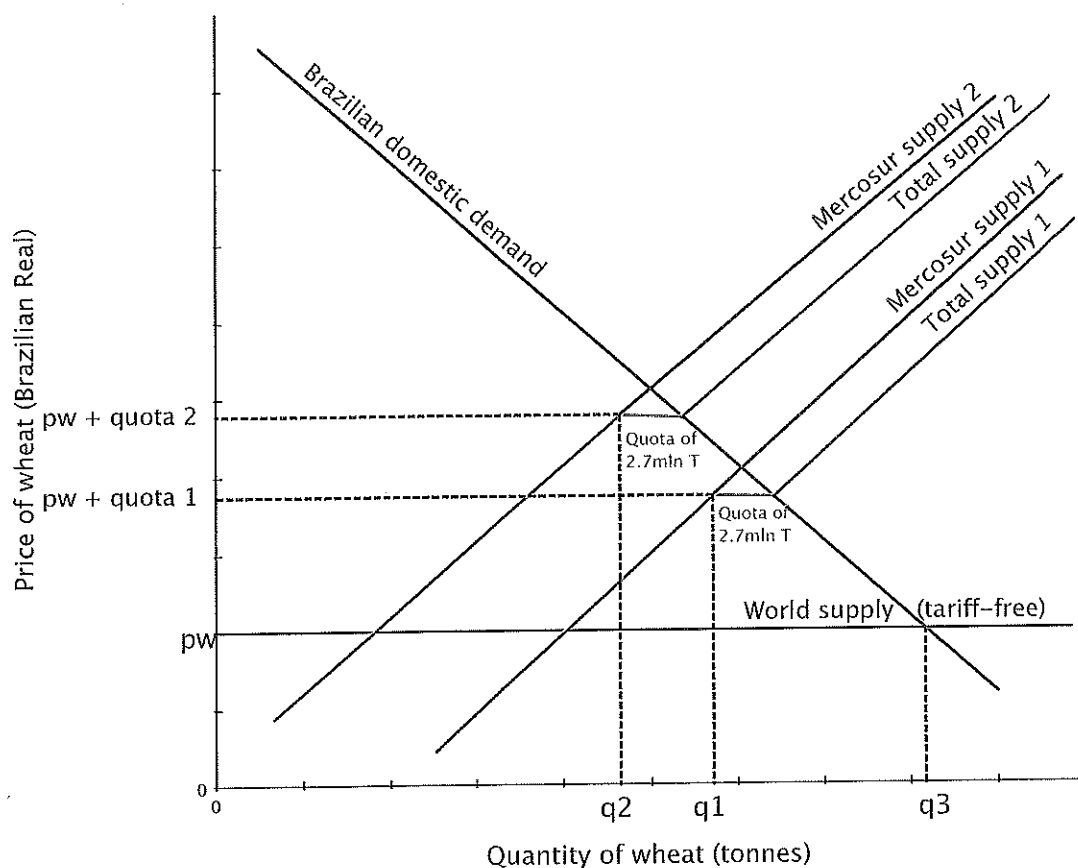


Diagram 1: Decrease in Mercosur supply of wheat

Diagram 2 shows a simplified version of the consequences of the increase in tariff-free quota, where the initial quota of $(q_4 - q_3)T$ results in an equilibrium price of $p_w + \text{quota}_1$, which decreases to $p_w + \text{quota}_2$ after the quota is increased by 0.6 million tonnes to $(q_5 - q_2)T$. Consequently the decrease in Mercosur supply does not give such high increases in prices of wheat-related products, which is important for consumers and food producers, assuming that wheat has low price elasticity of demand. This is

reflected in the increase in consumer surplus from a to $a+b+c+d+e$.

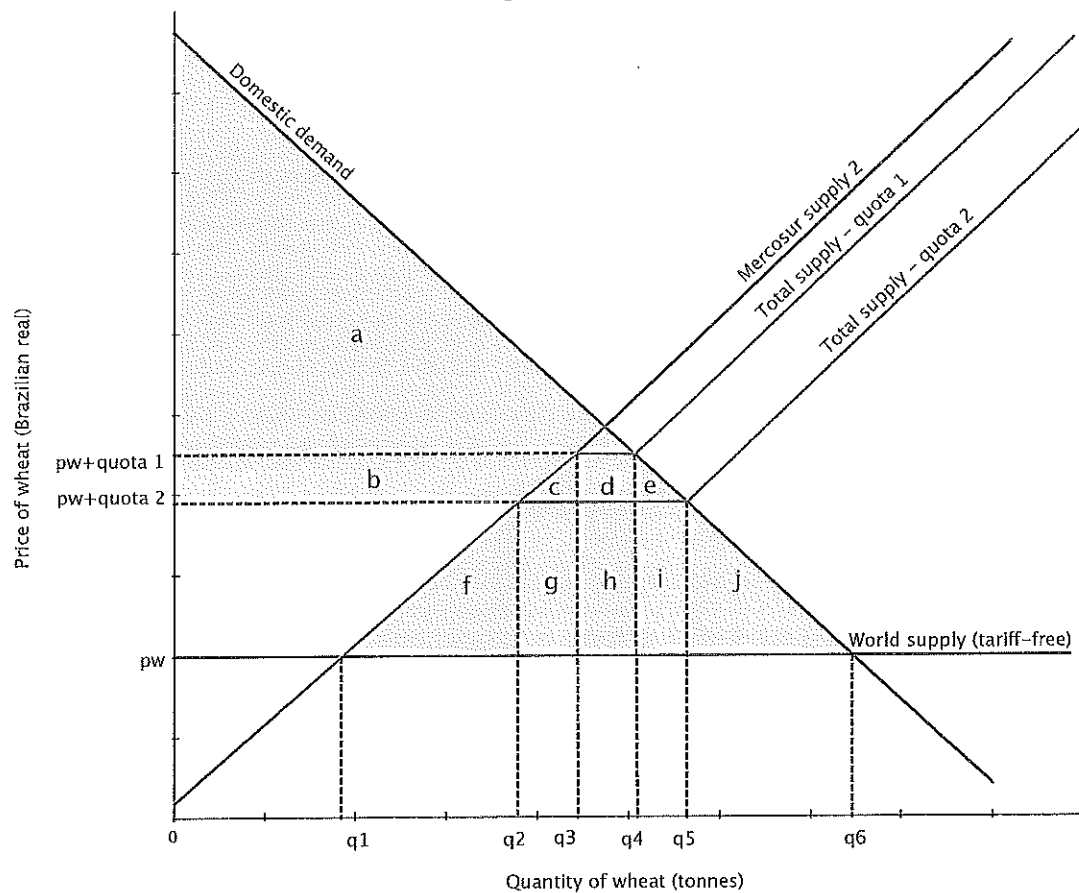


Diagram 2: Increase in tariff-free quota

In addition the loss of efficiency in world production caused by Mercosur's protectionist measures is reduced, shown in this diagram as the decrease in consumer inefficiency from $e+i+j$ to j and in producer inefficiency from $c+f+g$ to f , although taking into account the supply from world supply that is subject to the 10% tariff after the quota the actual areas may be different. The presence of these inefficiencies forms the basis for an argument against the implementation of a common external tariff by the customs union, which is that it interferes with the benefits of allowing a country with a higher comparative advantage to specialise in the production of wheat. However, Mercosur may view the tariff as necessary in order to prevent re-exportation, which occurs when a country imports a good at a lower tariff than a country with which it has free trade, and then exports it to the other country. This is because some member countries may wish to protect their wheat industries for reasons such as protecting employment rates or preventing dumping. Therefore the relaxation of protectionist measures could have a negative impact on Mercosur employment in wheat-related industries, as Mercosur producers supply the lower quantity of q_2 rather than q_3 that they supplied before the increase in quota and lose producer surplus of area b .

The increase in tariff-free quota will also have resulted in a change in quota revenue from $d+h$ to $g+h+i$, which could be either an increase or decrease depending on the change in equilibrium price. This will affect the revenue of either importers of wheat or the Brazilian government, although it is unlikely to make up a very large part of

total government revenue, and the government would likely more highly value the public's positive response to the policy helping curb "food inflation".

Because the increase in tariff-free quota signals a relaxing of protectionist measures on Brazil's part, it may encourage other countries, particularly the United States and Canada, from which it has "purchased nearly all of its tariff-free wheat", to in their turn relax any protectionist policies that they may have against Brazil. This could help the volume of exports from Brazil to these countries to increase: a credit on Brazil's balance of trade. However this will not necessarily occur because it's only a slight relaxation of a policy on one good.

The main effect of the increase in tariff-free quota of wheat imported by Brazil is that it means consumers should be able to buy wheat-based goods at lower prices than otherwise, as food producers buy wheat at an overall lower price. Although the policy may have some short-term negative impacts on Mercosur employment, foreign producers benefit from supplying a greater quantity at $p_w + \text{quota}_2$ and there is an overall increase in world efficiency, although again perhaps only temporarily depending on when Mercosur wheat supply recovers.